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BEFORE THE SUBCOMMITTEE ON ENERGY REGULATION AND CONSERVATION
OF THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
ON THE AUTOMOTIVE FUEL ECONOMY PROGRAM

MAY 14, 1985

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to discuss the automotive fuel economy program. This is my first appearance before your subcommittee, and I look forward to hearing your views. With me at the witness table are Barry Felrice, our Associate Administrator for Rulemaking, and Jeffrey Miller, our Chief Counsel.

I will give you a brief overview of the fuel economy program, review the status of current rulemaking and litigation issues, and then invite any questions you might have.

THE FUEL ECONOMY PROGRAM

In the aftermath of the Arab oil embargo of 1973-1974 that led to gasoline shortages, Congress determined that the existing automotive fuel economy levels were unacceptably low. As a result of this concern and determination, the Energy Policy and Conservation Act of 1975 was

enacted, which added a new Title V to the Motor Vehicle Information and Cost Savings Act to establish fuel economy requirements for passenger cars and light trucks. For passenger cars, the Act directed each auto manufacturer to achieve progressively higher corporate average fuel economy (CAFE) levels beginning at 18 miles per gallon in model year 1978 and increasing to 27.5 miles per gallon in model year 1985 and thereafter. The Secretary of Transportation was given administrative authority to determine the intermediate levels in model years 1981-1984, and to adjust the standard from 27.5 after model year 1985 if necessary. The Act also required the Secretary to set separate fuel economy standards for light trucks each year. These responsibilities have been delegated to our agency.

For both passenger car and light truck CAFE standards, the Act requires us to determine the "maximum feasible fuel economy level" for a model year. The Act establishes fines for manufacturers who fail to meet the CAFE standard, but also permits them to offset these fines with accumulated past credits or estimated future credits for exceeding the standard.

Intermediate fuel economy levels for 1981-1984 were established by the agency in 1977, leading to a standard of 27.5 mpg for model year 1985 and thereafter. Throughout the early part of the 1980's, the strong market demand for fuel-efficient cars enabled the manufacturers to

rapidly increase fuel economy and to exceed the required CAFE levels for those intermediate years. The auto manufacturers have steadily incorporated new fuel-saving technology into their vehicles. They have reduced vehicle weight dramatically by downsizing and materials substitution, and have made great improvements in efficiency through better transmissions, better aerodynamics, and electronic engine controls. Even the least efficient of the new domestic cars is more fuel-efficient than many of the so-called economy cars of 15 years ago.

Although the demand for small cars has abated to some extent in the last two years, the CAFE levels actually achieved by the manufacturers have nonetheless continued to increase. The CAFE levels for the domestic fleet rose from 24.2 mpg in model year 1983 to estimates of 25.3 mpg in 1984 and 25.7 mpg in 1985. This contrasts with an estimated CAFE achievement level of approximately 15 mpg in model year 1975, when the Act was passed. We expect that the rate of increase will continue to be determined by the factors of new technology and consumer demand. Consumer demand is to a large extent outside the control of the manufacturers, although the manufacturers may, to some extent, influence demand through their marketing and pricing strategies. A shift in market demand away from smaller cars could cause the CAFE achievement levels to rise less rapidly or perhaps even to decline. Such a shift could offset or even exceed the CAFE gains from improved technology.

It is the Administration's position that free market factors, rather than CAFE standards, are the most efficient means of achieving appropriate levels of fuel economy over the long run. The laws of supply and demand, and free market pricing, will balance the desire of the motoring public for fuel efficiency and other product attributes such as performance, durability, handling, comfort or other characteristics associated with a specific manufacturer. With the decontrol of oil prices, today's oil market is demand responsive, unlike the controlled market of the mid-1970's when the Act was passed. We have, therefore, opposed efforts to set higher CAFE standards by statute. Passenger car CAFE levels as high as 45 mpg have been proposed for the 1990's in some bills. We are not aware of any evidence to support the feasibility of these levels when economic practicability is considered. Regardless of feasibility, however, the result of such legislation would be to restrict the types of vehicles available to American consumers, thus denying them the larger and more powerful vehicles which are currently available. It could also reduce the levels of sales, investment and employment in the domestic auto industry.

The question of whether adjustments should be made in CAFE levels is also presented by administrative petitions for rulemaking that have been received from some manufacturers who claim that even 27.5 mpg is not feasible. I want to turn now to discuss our current rulemaking activities.

CURRENT RULEMAKING

First, I should emphasize that our rulemaking deliberations are governed by the criteria spelled out in the Act. NHTSA is required to establish "maximum feasible fuel economy levels," which are to be determined on the basis of specified factors, including technological feasibility, economic practicability, and energy conservation needs.

We have recently granted three petitions for rulemaking to amend the fuel economy standards for passenger cars. Our action means that we will review available information to determine whether rulemaking is warranted, but does not represent a commitment on our part to take further rulemaking action. The first of these petitions, filed last summer by the Center for Auto Safety, seeks an increase in the standard to 31.5 mpg for model year 1987, with subsequent increases of 3 mpg per year to 40.5 mpg by model year 1990. The other two petitions, filed by General Motors and Ford, request a reduction in the standard for model year 1986 and beyond to 26 mpg. The notices we published in the Federal Register, reflecting our grant of the petitions, requested comments on the fuel economy capability of manufacturers.

Both General Motors and Ford have cited the possibility of severe economic harm if the standards are not lowered, and the time remaining before the start of the model year is very short. The comment period closed on April 29. We are now evaluating the comments as well as the petitioners' answers to our prior requests for more specific information.

Because we are in rulemaking we cannot indicate at this point what the outcome of this process will be. Our initial review of the comments shows that there are strong views on both sides of the issue. Whether or not we decide to initiate rulemaking to revise the standard, the issues raised by the petitions need an expeditious response. We therefore intend to move quickly to address the issues raised by the petitions.

We are also involved in rulemaking for light truck fuel economy. We have outstanding a notice of proposed rulemaking to set standards for model year 1987. We plan to issue a final rule shortly. We also plan shortly to issue a notice of proposed rulemaking to set light truck standards for model year 1988.

FUEL ECONOMY PETITIONS

On October 16, 1984, the agency issued a final rule lowering the light truck CAFE standard from 21.0 mpg to 19.5 mpg for model year 1985 and establishing a standard of 20 mpg for model year 1986. We denied petitions for reconsideration of these standards on March 15, 1985. Several organizations, including the Center for Auto Safety, have challenged these standards in the U.S. Court of Appeals for the District of Columbia. According to a press release, the petitioners contend that NHTSA failed to set the "maximum feasible" standards required by the Act, and they seek a court order raising the light truck CAFE standards to 21.0 mpg and 21.5 mpg for model years 1985 and 1986, respectively. The agency believes that its action was fully in accord with the statute and well justified by the record.

We are currently preparing the record of the rulemaking proceeding for filing with the court, after which the parties will submit their briefs and then make oral arguments. It is not clear at this time how long the subsequent court proceedings will take.

Mr. Chairman, this completes my prepared remarks. I would be glad to try to answer any questions you may have.